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VA offers medicines at bargain prices

By William M. Welch, USA TODAY

Imagine the federal government ran a health care system that provided affordable care, had hospitals and clinics around the country and charged patients just $7 a month for each prescription. Many Americans might beat a path to its door — especially seniors struggling to pay for expensive drugs that Medicare doesn't help them buy, and those with no health coverage.

Such a government-run, national health care system exists today for one segment of America: its military veterans. And therein lies an object lesson for President Bush and Congress as they wrestle this summer with the biggest changes in Medicare since its creation, among them a prescription-drug benefit.

As medicines become more costly and more people go uninsured, veterans who until recently would not have considered the Department of Veterans Affairs' health system are clamoring to get in.

"Somebody told me, why didn't I go to the VA health care with my problems?" recalls Kenneth Bungay, 70, a Korean War veteran in North Wilkesboro, N.C. With a heart condition, diabetes and other ailments, he was paying $700 a month for prescription drugs, more than 40% of his income, until he enrolled at the VA last year.

"Rather than eating dog food, I needed some help paying for my medications, so I could eat some decent food," Bungay says.

Once derided as offering second-class medicine, the veterans' health system has made advances in recent years. It has developed a model program for computerized tracking of patient care, designed to lower costs and reduce medical errors. At a time of rising health costs, the VA's per-patient spending is coming down: from $5,019 in 2001 to $4,928 in 2002. Medicare is going in the opposite direction: from $6,214 in 2001 to $6,604 in 2002. And the VA is controlling drug costs in ways unequaled in private or public health care in the USA.

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As Congress debates how to offer drug benefits to seniors, modernize Medicare while limiting costs and reduce the rising number of uninsured, the VA health care system offers unexpected examples of success — as well as a cautionary tale of what happens when demand outpaces supply. Enrollment has grown by 20% annually in some recent years, demonstrating the widespread need for access to care and affordable drugs among Americans.

While the political debate centers on shifting more of the government's Medicare coverage into private managed-care systems, the VA shows that the government can operate a vast health care system and force drug companies to sell drugs at lower prices — if Washington has the will to do so.

"Fundamentally, the veterans' system does for the veterans' population what national health care could do for the entire population," says Arthur Porter, a physician who serves as president and chief executive officer of the Detroit Medical Center system. He recently studied the VA health system as a member of a presidential task force named to recommend improvements, which issued its findings this month.

"We actually have a national health care model that works," Porter says. "We don't have to go to Canada."

Chastened by failed efforts in the past, few members of Congress are pushing a Canadian-style national health care system for all Americans, as many Democrats did a decade ago.

But some states have begun taking aggressive steps to purchase drugs at lower costs. The U.S. Supreme Court recently upheld a Maine program designed to cut drug prices for the uninsured.

Cheap prescription drugs are a big factor in the rush to VA care, particularly among veterans older than 65. Medicare, the national health program for seniors, doesn't cover drugs administered outside a hospital. And one-third of all Americans 65 and older don't have drug coverage through another source, such as an employer or supplemental insurance.

"We have a wonderful benefit package, especially in prescription drugs," Veterans Affairs Secretary Anthony Principi says. "It has driven people to the VA in unprecedented numbers."

Clout in the marketplace

To control drug costs, the VA makes heavy use of cheaper generic drugs. It also has used market clout to command big price reductions for brand-name drugs from pharmaceutical makers.

Health care economist Gail Wilensky, who ran Medicare in the first Bush administration, says the VA has made use of more aggressive drug-management steps than other health systems. It has limited drug options for some patients, steering them away from expensive, heavily advertised drugs and toward less expensive alternatives.

In addition to substituting generic drugs, which are biochemical equivalents to brand-name drugs, Wilensky says the VA effectively uses therapeutic substitutes. Doctors are encouraged to prescribe from a list of preferred and cheaper drugs aimed at a common condition, even if they are not chemically the same. Doctors can deviate from the list of favored drugs only if medically necessary. But that is the exception.

The savings from favoring lower-cost drugs are stark. Principi says roughly two-thirds of the prescriptions filled by the VA are generics, and they represent just 8% of the department's drug costs. Name brands account for one-third of prescriptions but 92% of the VA's drug costs.

The VA has used its clout in the marketplace to obtain major price concessions from drugmakers. An investigation by the inspector general of the Department of Health and Human Services in 2001 concluded that the VA paid, on average, 52% less for a list of 24 drugs than did Medicare, which pays for drugs related to hospital visits.

A USA TODAY price comparison found that the VA was able to purchase its most popular drugs at significantly lower prices than retail drugstores offer or that are available from Canada, where many seniors go for cheaper drugs. (**Related link:** VA dusts competition in drug prices)

Marilyn Moon, a health economist at the liberal Urban Institute in Washington, D.C., who advocates adding an outpatient drug benefit to Medicare, says Congress should follow the VA's example and force lower prices from drug makers for Medicare recipients. Currently, the Medicare system relies on private, third-party pharmaceutical benefit management companies to negotiate prices with drug companies.

"There are interesting lessons to be learned from the VA," Moon says. "Medicare probably couldn't go quite as far, but the VA indicates that you can indeed negotiate and get a good deal."

'We'd destroy the market'

Such direct government involvement in buying drugs and negotiating prices would be anathema to conservatives, GOP leaders in Congress and the Bush administration. It also is opposed by the pharmaceutical industry, one of the most powerful and well-financed lobbies, which would lose profits and perhaps the ability to research some new drugs if Medicare recipients received medicine at the VA's prices.

Republicans are pushing Medicare in the opposite direction. The leading proposals in Congress to provide a drug benefit to help some seniors with their drug costs would rely on private insurers to command price reductions.

People who pay for prescription drugs themselves, including seniors without drug coverage, typically pay top-dollar retail prices. The one-third of seniors who lack any drug coverage fall into this group. But Thomas Scully, a Bush appointee who heads the Centers for Medicare and Medicaid Services, says the government couldn't demand lower prices for them using the VA's methods.

The VA, Scully says, accounts for about 2% of the total prescription-drug market. Medicaid, the federal program for the poor run by states, accounts for about 8%. But Medicare patients buy about 50% of the nation's prescription drugs; for some categories of drugs, seniors are virtually 100% of the market.

Medicare, Scully says, is too big to demand price concessions. "The VA can go out and negotiate good prices," he says. "If we did it, we wouldn't be negotiating. We'd be price fixing. ... If we did that, we'd destroy the market."

The Veterans Affairs health care system has become a victim of its own success. More people want in, and Congress has not increased the budget enough to handle the increased demand.

Driven by the desire for access to cheap, subsidized drugs, and encouraged by advances in the quality of the VA's medical care, millions of additional veterans such as Bungay have sought admission to the Veterans Affairs health system since 1996. That year, Congress dropped restrictions on eligibility and agreed to consider all veterans, including those who are not poor and whose ailments have no connection to their service. The number of lowest-priority veterans being treated has risen from 107,520 in 1996 to 827,722 last year.

A system under siege

Overall, the number of veterans enrolled in the health care system leaped from 4.2

million in 1999 to 6.9 million in 2003. Spending on drugs rose from $1.8 billion in 1999 to $2.6 billion last year. More than 200,000 veterans have been waiting six months or longer for a first visit with a doctor. To cope with the increased caseload, the VA has hired 1,000 doctors and 3,000 nurses and related personnel in the past year.

Robert Roswell, head of the VA's medical system and a physician, says the VA has moved care closer to veterans by opening more than 500 outpatient clinics since 1996. "We underestimated the new demand for care these new community outpatient clinics would generate ... at a time when prescription drugs were such an issue," Roswell says. "It's a glaring deficiency in the Medicare program, but it's an important benefit in the VA program."

Senior veterans on Medicare aren't the only ones turning to the VA for care. Robert Custer, 56, of Tomball, Texas, enrolled in the VA system in October and waited until this year to see a doctor. He has health coverage through his wife's employer but wants VA care when she quits and they move to a farm.

"I want in the system for the long term," he says. "And it's taking a long time to get in the system."

Another factor driving the backlog of veterans seeking an appointment with a VA doctor: Veterans can't take their private doctors' prescriptions to the VA and have them filled. They must first get an appointment and see a VA doctor, who might or might not prescribe the same drug. In many cases, it will be a different one.

While that requirement has contributed to a backlog for its physicians, the VA opposes suggestions from Congress that it fill prescriptions for veterans that were written by their private doctors. Permitting that would swamp the VA system and take it farther from its core mission of providing medical care to veterans who need it, Principi says. "We have resisted becoming a drugstore," he adds.

The influx of veterans seeking help is so great that the government has begun to ration care.

Principi took the unprecedented step in January of using his authority to halt further enrollment in the VA's health care system by veterans who are in the lowest rung of an eight-level priority rating system. Those at the bottom are veterans whose incomes exceed a maximum set by regional formula, are not disabled, don't have a service-connected illness and don't hold special status, such as a former prisoner of war. Those already enrolled will keep getting care.

"We have so many veterans coming to us," Principi says. "Without any policy change ... there's no telling where this is going to go."

The move to limit care has drawn protests from veterans groups and their allies in both parties in Congress, where veterans' programs traditionally receive strong support. They want a new law mandating that Congress provide as much money as needed to care for all veterans seeking VA treatment each year.

"If they opened the door for a veteran to be treated in a VA medical center, they should have funded it," says veteran Ronald Conley of Pittsburgh, national commander of the American Legion.

The drive to ensure that all veterans' costs are covered faces uncertain prospects at a time when federal deficits are projected to exceed $400 billion this year. In the meantime, Principi and Tommy Thompson, secretary of the Department of Health and Human Services, are working on a pilot program that would allow low-priority veterans to use Medicare coverage to pay for VA care.

To stem growth and limit costs, Bush also has proposed increasing the fees veterans must pay for care — raising the co-payment for a 30-day supply of drugs from $7 to $15, and requiring a $250 annual fee for low-priority veterans. The administration also

is continuing steps to close under-used VA hospitals as the system shifts emphasis to outpatient treatment.

This month, a presidential task force completed a study and report on the veterans' health system. It stopped short of recommending mandatory funding for all who seek VA care. But it said Congress and the administration must address the "mismatch between demand for access and available funding" that threatens care for veterans who bear the wounds of service to the nation.

'Medicine, medicine'

In the meantime, veterans like Ernest Masche will continue to swamp the system — and show Medicare's overseers what might happen if they offered an attractive prescription-drug benefit.

Masche, 76, of Hickory, N.C., faced a monthly drug bill for heart problems and other ailments that had reached $900 — half his income. He went to the VA only after his pharmacist recommended it and his wife demanded it.

"He never asked the VA or anyone to help him," Ann Marie Masche says. "I said if he didn't, we would lose everything."

So Masche enrolled — and waited 14 months for his first visit with a VA doctor. When he finally saw her, "She says, 'What are you here for?' I said, 'Medicine. Medicine.' " His drugs arrived by mail a few days later, and Masche is delighted.

"Now to make it even better," he says, "that doctor called me last Friday and asked how I was, if I felt all right, if anything bothers me. She said, 'If you need anything, you give me a call.' "